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NSC FOR ABRAMS/RAMCHAND/YERGER/MCDERMOTT

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SUBJECT: LEBANON: 2009 BUDGET DRAFT PROJECTS THREE PERCENT GROWTH  
AND DEFICIT OF 9.4 PERCENT OF GDP (ECONOMIC WEEK IN REVIEW, JANUARY  
5 - 11, 2009)

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2009 BUDGET DRAFT PROJECTS THREE PERCENT GROWTH  
AND A BUDGET DEFICIT OF 9.4 PERCENT OF GDP...  
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[¶1.](#) (U) In a press conference on January 5, Minister of Finance (MOF) Mohammad Chatah indicated that the MOF has submitted to the Cabinet a revised 2009 Budget draft based on new economic projections. The MOF lowered Lebanon's projected GDP growth for 2009 to three from five percent, in light of the global financial crisis and the expected economic slowdown in the Gulf countries. Inflation is projected at five percent in 2009. Chatah noted that the MOF calculated oil spending at an average oil price of \$54/barrel based on November 2008 IMF estimates.

[¶2.](#) (U) Chatah said the 2009 Budget draft projects a total deficit of \$2.9 billion, or 28.37 percent of total spending and 9.41 percent of GDP. Total expenditures are projected to reach approximately \$10.3 billion, while total revenues are estimated to reach about \$7.3 billion. Debt service is expected to reach \$4 billion or about 39 percent of total spending.

[¶3.](#) (SBU) In the 2009 Budget draft, the GOL is asking for parliament's approval to borrow in foreign currencies up to a ceiling of \$4 billion, MOF senior Economic officer Zeina Kassem told us January 9. The Cabinet is due to begin discussing the 2009 Budget draft this week.

... AND DOES NOT ACCOUNT FOR TELECOM  
PRIVATIZATION PROCEEDS  
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[¶4.](#) (U) Meanwhile, Chatah also said the 2009 Budget draft does not account for the impact of telecom privatization on revenues and debt

service. He noted that if the privatization of the two mobile operators -- the proceeds of which are expected to be used to decrease the public debt -- does not take place by the third quarter of 2009, the cost of debt service would rise by \$450 million in 2010.

TELECOM CONFERENCE SUGGESTS  
PARTIAL MOBILE PRIVATIZATION  
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15. (U) On December 30, 2008, the Ministry of Telecommunications (MOT) held a conference entitled "Telecom for Lebanon - Tapping the Diaspora," which attracted around 30 Lebanese telecom experts from the Lebanese diaspora to share their knowledge on telecom liberalization, and discuss the MOT's policy paper for the medium and long-term development of the sector. Participants suggested "partial" liberalization of the two mobile companies, whereby the GOL would remain the main owner, while proceeding with the establishment of a third mobile operator, Liban Telecom. An advisor to Telecom Minister Gebran Bassil was publicly quoted as saying that partial liberalization would ensure the already high revenues the MOT transfers to the GOL each year (estimated at \$1.3 billion in 2008, or a 12 percent increase compared to 2007), a reduction in mobile tariffs, and improvement in the quality of services. A committee of local and diaspora experts was set up to follow-up on the conferences' recommendations and to organize similar gatherings in the future.

TELECOM MINISTRY AIMS TO  
INCREASE PENETRATION RATES  
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16. (SBU) Bassil also said the MOT is planning to increase the capacity of the mobile network by 800,000 additional lines. The network will be able to accommodate 75,000 new subscribers by the end of January 2009, he said. He also estimated the number of high-speed internet subscribers at 80,000, and noted that this figure should reach 100,000 by the end of February. Prominent economic consultant Kamal Hamdan on January 8 told us that increasing the cellular penetration rate will enable the MOT to lower costs of cellular calls without affecting state revenues and the sale price of the two mobile licenses.

NATIONAL PASSENGER CARRIER MEA  
WILL NOT LIST SHARES IN 2009  
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17. (SBU) Chairman of national airline carrier MEA Mohammad El-Hout told us January 8 that MEA has postponed listing shares on the Beirut Stock Exchange (BSE) to 2010 due to unfavorable market conditions anticipated for this year. MEA is planning to list 25 percent of its shares on the BSE as a first step. (Note: The Central Bank of Lebanon controls 99 percent of MEA shares. End note.) El-Hout estimated MEA's profit to exceed \$70 million for 2008, as the number of passengers rose by 20 percent.

18. (SBU) On a separate issue, El-Hout said the recent sale of Lebanon's cargo carrier TMA is just a change in the management of the company, with the previous owner Banque Libano-Francaise (BLF) and the current buyer Mazen Bsar being front-names for BankMed, which is owned by the Hariri family. Bsar acquired TMA for one dollar and will settle TMA's \$60 million debts, local press reported.

AGRICULTURAL PROJECTS FUNDED  
WITH USG WHEAT GRANT ONGOING  
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19. (SBU) The U.S.-Lebanese Joint Technical Committee concerning the agreement between the USG and GOL for the donation of wheat in 2006 under the Food for Progress Act, approved on January 8 a new tender document for the call for proposals for new agricultural development projects, following the withdrawal of NGO ACDI/VOCA in December 2008. The JTC expects to publicize its request for applications for

new projects by the end of January 2009, to make use of the outstanding balance of around \$2.2 million (out of an initial \$4.75 million). Meanwhile, the two other ongoing projects (increasing competitiveness of Lebanese agriculture, and the farming of seedless grapes and kiwi) are progressing along their set work plan as agreed upon with the JTC.

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